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C O N F I D E N T I A L SECTION 01 OF 02 HARARE 000871

SIPDIS

AF/S FOR BNEULING
NSC FOR SENIOR AFRICA DIRECTOR C. COURVILLE
USDOC FOR ROBERT TELCHIN
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FOR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON
USDOL FOR ROBERT YOUNG

E.O. 12958: DECL: 12/31/2009

TAGS: [EINV](#) [EMIN](#) [ECON](#) [PGOV](#) [ZI](#)

SUBJECT: ZIMPLATS STILL INVESTING DESPITE UNCERTAINTY

Classified By: Charge d'affaires Eric T. Schultz a.i. for reason 1.4 d

Summary

1. (C) Zimbabwe Platinum Mines (Pvt.) Ltd. (ZimPlats) CEO G. Sebborn told PolOff on June 21 that the company was open to expanding its Zimbabwe operations despite ongoing political and economic turmoil. However, the additional investment would be conditioned upon GOZ guarantees regarding land tenure and the scope of required indigenization. Sebborn also expressed concern over the effects of new Chinese mining investments and Operation Restore Order. End Summary.

Investment And Forex Access

2. (C) Sebborn stated that ZimPlats started work on June 21 on a US\$50 million expansion of their existing underground platinum mine. The company also had plans on the table to build a new US\$180 million mine starting in October 2005. Sebborn added that the company had presented a ten-year, US\$2 billion investment proposal to the GOZ. However, any investment beyond the US\$50 million would require GOZ guarantees to protect the investment especially regarding land tenure and the level of indigenization (Zimbabwean ownership) Zimplats would be required to obtain.

3. (C) Sebborn noted that at US\$900/ounce, platinum investments should prove profitable even amid Zimbabwe,s economic and political turmoil. According to Sebborn, South Africa and Zimbabwe were the two largest potential suppliers of platinum, with Zimbabwe,s platinum easier to access.

4. (C) He said ZimPlats had established a special mechanism with the Reserve Bank of Zimbabwe (RBZ) to facilitate access to foreign exchange. Under this arrangement ZimPlats held its foreign currency reserves offshore but maintained a mirror account at the RBZ that ensured GOZ-access to the account,s activity. ZimPlats then sold its foreign exchange at the auction to pay for local expenses. ZimPlats also paid royalties and taxes in foreign exchange.

Economic Turmoil: The Chinese Factor

5. (C) Sebborn told PolOff that several Chinese investors had recently visited his offices seeking partnerships in new mining projects. None of these potential investors had as yet come back with a concrete proposal. However, Sebborn had heard through other sources that some Chinese investors planned to build a platinum processing plant. He expressed concern that the Chinese lacked the required expertise to build a plant on par with those in South Africa and other western countries. Moreover, he said the GOZ would likely force ZimPlats to send its platinum to the new plant for processing. This, Sebborn stated, would either result in poorer grade platinum or extend the revenue chain as platinum is sent first to the local plant and then to the South African plant. It would also reduce Zimplats leverage with the GOZ and lessen its ability to protect its investment here, since the best processing plants were all in western countries that could be relied on to react negatively to GOZ expropriation efforts.

6. (C) Sebborn speculated that the recent rash of Chinese interest in the mining sector resulted from special concessions from the GOZ. He also opined that the Chinese could be betting on a pay-off in the long-term, in a post-Mugabe Zimbabwe. Sebborn noted that starting a new mine or processing plant involved massive upfront sunk costs and subsequent adequate activity to be viable- activity that

Zimbabwe,s current platinum production levels could not support.

Political Turmoil: Operation Restore Order

17. (C) Sebborn expressed puzzlement at the ongoing Operation Restore Order. Over 20 percent of his local plant staff had been affected. At the mine location last week, a drunken police officer told Sebborn that orders had come down to burn the huts around the mine. Sebborn contacted the local Chegutu police office and the officer in charge told the drunken officer not to go ahead with the plans but the drunken officer stated that he took orders from a higher authority. No huts had yet been burned, however, Sebborn worried that the mine would effectively shut down if the contractors and employees occupying the huts were suddenly rendered homeless.

Comment

18. (C) Amidst Zimbabwe's continuing economic and political turmoil, there remain areas of potentially profitable economic activity, including especially mining. Nonetheless, the GOZ's imperative to consolidate and expand its control over the nation's economy will continue to hamstring efforts by even the bravest and strongest players to move forward. Symptomatic of the GOZ misplaced priorities, the Mining Minister cannot find time to discuss ZimPlat,s US\$2 billion investment offer - one that offers potentially significant cash inflows and employment opportunities) even as hundreds of thousands are burned out of home and livelihood and millions face potentially severe food shortages.
SCHULTZ